

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 03 ANKARA 005352

SIPDIS

TREASURY FOR CPLANTIER AND MNUGENT
USDOC FOR 4212/ITA/MAC/CPD/CRUSNAK
DOE FOR CHUCK WASHINGTON

SENSITIVE

E.O. 12958: N/A

TAGS: [EPET](#) [ENRG](#) [EINV](#) [KTDB](#) [TU](#)

SUBJECT: TURKEY'S REFINERY PRIVATIZATION: ANOTHER CROWN
JEWEL IS SOLD AT A GOOD PRICE, BUT THE FAT LADY HASN'T SUNG

REF: a) Ankara 269, b)Ankara 3258

This cable has been coordinated with Congen Istanbul.

11. (SBU) Summary: Turkey's Privatization Authority seems to have taken another important step forward, with a Koc Holding - Shell consortium committing to pay a higher-than-expected \$4.14 billion for a 51 percent stake in TUPRAS, Turkey's state-owned monopoly refiner. Given past court rulings against privatization decisions, and in light of current challenges to the recent Turk Telekom tender, it is early to call the TUPRAS privatization a done deal. However, the GOT is showing it is pushing ahead--despite controversy--on major privatizations and has a reasonable chance of consummating one or both of these large transactions. End Summary.

12. (SBU) In a remarkably transparent televised process, reminiscent of that for Turk Telekom three months ago, a consortium of domestic giant Koc Holding and Shell won the privatization tender for TUPRAS, committing to pay USD 4.14 billion for a 51% share of the refiner. Surpassing all expectations, the winning tender represented a \$8.2 billion valuation of the company, a 79% premium over current market capitalization. There was broad domestic and foreign representation in the nine consortia bidding in the auction. Losing bidders included Turkey's military pension fund and industrial group OYAK, Italian ENI, Hungarian MOL, Austrian OMV, Indian Oil/Calik Enerji, Polish PKN Orlen/Zorlu, a Petrol Ofisi-led group, and Anadolu/Cukurova. The auction price commenced at USD 2.78 billion, increasing in bidding rounds up to USD 4.14 billion. Traded TUPRAS shares increased 9.18 percent at the opening of the equity market September 13 (Note: 49 percent of TUPRAS shares are traded on the stock exchange. The state's share in the company decreased to 51 percent through small IPO's since 1991. End Note).

13. (SBU) The TUPRAS privatization gained a record level of international interest (however without any U.S. interest), and was the second in pricing following the Turk Telekom tender in July this year. The winning consortium consists of Koc Holding (80 percent) and Koc related energy companies (Aygaz 7 percent, Opet 3 percent); Shell Overseas INV BV (9.9 percent); and the Shell company of Turkey Ltd (0.1 percent). Following the auction, Koc Holding Energy Group head Erol Memioglu said Koc Holding would aim at becoming a regional energy player. He said they would establish a big retail distribution chain together with TUPRAS, Opet(domestic retail gasoline company and Aygaz (household type liquid gas). Memisoglu said the consortium had not yet decided on how to make the payment as the process had not been finalized.

14. (SBU) A previous attempt to privatize TUPRAS via sale of a 65 percent stake in 2004 was annulled when Turkey's top administrative court, Danistay (Council of State), ruled that the Privatization Administration (PA) failed to adhere to the privatization process requirements. A joint venture between Russian Tatneft and local group Zorlu had won the tender for a \$1.3 billion sale price. The court ruling responded to a case brought by the Petroleum Labor Union representing TUPRAS employees.

Market Analysts of Two Minds:

15. (SBU) Market analysts we queried are of two minds about the result. Given the heavy foreign interest in TUPRAS, Turk Telekom, and the forthcoming Erdemir privatizations, on the one hand they view the price as indicative of a paradigm shift for Turkish assets, in that both local and international players have made the "strategic decision" to invest in Turkey and are "ready to pay the price" to do so, even when it involves a significant premium. The TUPRAS outcome already has led one brokerage, EFG Istanbul Securities, to upgrade its target valuations for other Turkish assets, and to predict that the enthusiasm is "unlikely to subside."

16. (SBU) Analysts are not sure, however, whether the Tupras deal itself makes economic sense. Murat Gulkan of Bender Securities noted to us that it is "hard to justify" the auction outcome in comparison to pre-auction market cap, and that the "scope for error is huge" in proportion both to Koc's funding resources and its own market cap. He conceded that money is cheap and funding is readily available, but stressed that the size of the financing requirement is such that it will require Koc to provide greater collateral and stricter covenants than it traditionally has for other financing. These concerns were reflected on the Istanbul Stock Exchange on September 13, as Koc shares closed down nearly 10 percent, and led Bender to downgrade Koc to a target 5 percent below even that closing level. Even analysts who see a natural fit between Shell and Koc's distribution network for petroleum products and Tupras, such as EFG, note that the "high price paid may be hard to justify in the short term."

Privatization Process - Next Steps

17. (SBU) The Tender Committee will send the tender result first to the Competition Authority for its view (30 day limit), and then to the Privatization Supreme Council for its approval. The consortium would then establish a company to put in place the share transfer agreement, and TUPRAS privatization process would be finalized. Despite Shell's retail presence in the Turkish market, the general view is that the sale would not be in conflict with the competition rules. Arzu Atik from the PA told econ specialist that, assuming the Shell share stayed at 10 percent, the PA expected a positive view from the Competition Authority (Note: Following the decision to sell the all public stake in TUPRAS in March 2005, the PA established a C-type privileged "Golden Share" belonging to the Privatization Authority, which can be exercised at the discretion of the Turkish Military. The Golden share will remain unless annulled by the Privatization Supreme Council, and the PA will appoint a board member to represent the share. End Note).

18. (SBU) The PA believes newly-crafted legislation supporting the privatization process will reduce the potential for a legal challenge like that which led to the cancellation of the 2004 privatization of TUPRAS. On the other hand, the Petrol-Is labor union immediately announced that the union would apply to the Danistay for cancellation of the TUPRAS sale.

19. (SBU) TUPRAS dominates the petroleum refining and downstream operations sector in Turkey. The company has four main refining complexes: Batman in the Southeast, Aliaga near Izmir, Izmit near Istanbul (the country's largest refinery), and the Central Anatolian Refinery at Kirikkale near Ankara. In 2002, TUPRAS' share of the Turkish fuels and lubricants market was around 78 %, with other major retailers including BP, ExxonMobil, TotalFinaElf, Agip, and ConocoPhillips. TUPRAS is Turkey's largest company in terms of revenues.

10. (SBU) Comment: A favorable economic environment in Turkey, the EU process, global tight refinery capacity, and lively domestic and foreign interest in Turkey in general and in this particular deal in particular generated a hefty auction price. The Privatization Authority has achieved a banner year, holding-but not finalizing-- tenders totaling \$13.9 billion, and striving to make its privatization transactions less subject to judicial attack, but it still must bring to closure the big Turk Telekom and TUPRAS deals. The apparent success of the privatization efforts are indicative of steady improvement in investors' perception of Turkey's investment environment. Turkish economic nationalists, who feared delivering the TUPRAS "crown jewel" to foreigners, may be more comfortable with majority control by an important domestic interest, the Koc Group. On the other hand, the very small foreign share in the winning consortium will mean only a small increase in Foreign Direct Investment.

McEldowney